
















Lesson Plan

Lesson 17 – Adjustments to Income

Time Required: 15-75 minutes

Introduction	Objectives	Topics
This lesson covers the Adjusted Gross Income (AGI) section of the tax return. Taxpayers can subtract certain expenses, payments, contributions, fees, etc. from their total income. The adjustments subtracted from total income on Form 1040 establish the AGI.	Identify which adjustments are in scope for VITA/TCE. Calculate and accurately report the adjustments to income that are in scope for VITA/TCE.	    Educator Expenses Self-Employment Tax      Penalties for Early Withdrawal     Alimony Paid IRA Contributions Student Loan Interest Tuition and Fees Other Adjustments to Income

Key Terms

Adjusted Gross Income (AGI): The taxpayer's total adjusted gross income (AGI) is the amount that is used to compute some limitations, such as the medical and dental deduction on Schedule A and the credit for child and dependent care expenses.

Alimony: Payment to or for a spouse or former spouse under a separation or divorce instrument.

Coverdell ESA: A trust or custodial account created or organized in the United States only for the purpose of paying the qualified education expenses of the designated beneficiary of the account.

Exemptions (Personal or Dependency): Amount that taxpayers can claim for themselves, their spouses, and eligible dependents. The total is subtracted from adjusted gross income before tax is figured on the remaining income (taxable income).

Modified Adjusted Gross Income (MAGI): The adjusted gross income with certain modifications.

Nondeductible Traditional IRA Contributions: Traditional IRA contributions that taxpayers may not deduct from their total income because the taxpayers do not meet the requirements; also includes remaining contributions from a partial IRA deduction.

Qualified Tuition Program: A program set up to allow taxpayers to either prepay or contribute to an account established for paying a student's qualified expenses at an eligible educational institution. The program must meet certain requirements set by the state. Also known as a 529 program.

Traditional IRA: An individual retirement arrangement that is not a Roth IRA or a SIMPLE IRA.

Tuition and fees: Qualified higher education expenses for which taxpayers can deduct up to \$4,000 in qualified tuition and related expenses paid during the tax year. The amount of the deduction is determined by filing status, modified AGI (MAGI), and other factors. Form 8917, Tuition and Fees Deduction will help compute the MAGI for this deduction.

Teacher Tips

Guidelines for Lesson

Guideline	Instructor Notes	Presentation Aids
Lesson background info	Review the online demo of TaxWise on Income.	TaxWise® Demo: From the Practice Lab, select: <ul style="list-style-type: none"> • 2011 TaxWise IRS training • TaxWise Desktop Preparer with VITA/TCE Training menu or the TaxWise Online Preparer with VITA/TCE Training menu • Click the Adjustments to Income button
Provide details and engage the students	<p>Discuss all tips and cautions in detail.</p> <p>Ask students to read and/or role-play examples and sample interviews.</p> <p>Review answers to each exercise; ask students how they arrived at their answers.</p>	<p>Internet:</p> <p>Link & Learn Taxes (L&LT) Adjustments to Income</p>

Topic-specific Tips

Topic Name	Instructor Notes	Presentation Aids
Introduction	<p>Review lesson objectives.</p> <p>Review list of references.</p> <p>State the presentation time.</p> <p>Use Form 13614-C answers to determine if the taxpayer has adjustments to income.</p>	<p>Visual:</p> <p>Form 1040, Page 1, AGI section</p> <p>Form 13614-C, Section A, Part IV</p> <p>Pub 4012 (Tab E, Tab 2, Tab 3, and Tab 13)</p>

Adjustments to Income	<p>Remind: Total income – adjustments = adjusted gross income (AGI)</p> <p>Ask taxpayers if they have:</p> <ul style="list-style-type: none"> • Educator expenses? • Self-employment income? • Early withdrawal of savings? • Alimony? • Student loan interest? • College tuition? • Jury duty income repaid to employer? 	<p>Visual:</p> <p>Form 13614-C, Section A, Part IV, question 3</p> <p>Pub 4012 (Tab 3) Adjustments to Income</p>
Educator Expenses	<p>Review L&LT topic Educator Expenses.</p> <p>Ask: How much can an educator deduct for 2011? Answer: \$250 per eligible taxpayer</p> <p>Refer students to Pub 17, Education-related Adjustments and review types of qualified education expenses.</p> <p>Remind students to ask taxpayers about any reimbursements that reduced their expenses.</p> <p>Ask for volunteers to role-play the sample interview.</p>	<p>Visuals:</p> <p>Form 13614-C, Section A, Part IV</p> <p>Pub 4012 (Tab 3) Adjustments to Income</p> <p>Form 1040, line 23</p> <p>Pub 17, Education-related adjustments</p> <p>Internet:</p> <p>Tax Topic: Educator Expense Deduction</p>
Self-Employment Tax	<p>Review L&LT topic Self-Employment Tax.</p> <p>Remind students that for tax year 2011, there is a reduction in the self-employment tax rate (with a slight difference in the calculation).</p> <p>Remind students that the self-employment tax is automatically calculated from Schedule SE.</p> <p>Remind students that the Other Taxes lesson covers this topic.</p>	<p>Visuals:</p> <p>Pub 4012 (Tab 3) Adjustments to Income</p> <p>Form 1040, line 27</p> <p>Internet:</p> <p>Tax Trails, Self-Employment Tax</p> <p>TaxWise Demo:</p> <p>Form 1040, Adjustments to income, line 27</p>

Penalties for Early Withdrawal	<p>Review L&LT topic Penalties for Early Withdrawal.</p> <p>Remind students that early withdrawals can be found on Form 1099-INT or Form 1099-OID.</p> <p>Remind students the penalty amount is entered on the interest statement in the tax software.</p>	<p>Visuals:</p> <p>Form 1040, line 30</p> <p>Form 1099-INT</p> <p>Form 1099-OID</p> <p>Pub 4012 (Tab 3) Adjustments to Income</p> <p>Pub 4012 (Tab 2) Interest Statement for Schedule B, Line 1b Interest Received</p>
Alimony Paid	<p>Review L&LT topic Alimony Paid.</p> <p>Direct students to Pub 4012 (Tab E-1) Alimony Requirements.</p> <p>Remind students that taxpayers sometimes confuse alimony with child support. Child support payments are not deductible for the taxpayer and are not taxable to the recipient.</p> <p>Direct students to the Alimony chapter in Pub 17, and Pub 504, Divorced or Separated Individuals for more information.</p> <p>Remind students the recipient's SSN must be provided.</p> <p>Demonstrate how to enter alimony paid using the tax software.</p>	<p>Visuals:</p> <p>Pub 4012 (Tab E) Alimony Requirements</p> <p>Pub 4012 (Tab 3) Adjustments to Income</p> <p>Form 1040, line 31</p> <p>Pub 17</p> <p>Pub 504</p> <p>Internet:</p> <p>L&LT Adjustments to Income, Alimony Paid</p> <p>FAQ: Can I deduct separate maintenance paid to my spouse or alimony paid to my former spouse?</p> <p>FAQs: Alimony and Child Support</p> <p>Tax Map: Alimony Paid</p> <p>TaxWise Demo:</p> <p>Link to Alimony Paid Worksheet from Form 1040, line 31a</p>

IRA Contributions	<p>Review L&LT topic IRA Contributions.</p> <p>Remind students that this topic covers traditional IRA and does not cover Roth or SIMPLE IRA.</p> <p>Review with students how much a taxpayer can contribute to an IRA, and when an IRA contribution can be deducted.</p> <p>Review the charts on the Effect of Modified AGI on Traditional IRA Deduction in Pub 4012 (Tab E).</p> <p>Direct students to find the IRA Deduction Worksheet in the Form 1040 Instructions.</p> <p>Remind students that Form 1099-R is issued for excess IRA contributions that are withdrawn.</p> <p>Demonstrate how to enter IRA Contributions on the IRA Deduction Worksheet in TaxWise.</p>	<p>Visuals:</p> <p>Form 1040 Instructions IRA Deduction Worksheet</p> <p>Form 1040, line 32</p> <p>Pub 17, Individual Retirement Arrangements chapter</p> <p>Pub 4012 (Tab E) Effect of Modified AGI on Traditional IRA Deduction tables</p> <p>Pub 4012 (Tab 3) Adjustments to Income</p> <p>Form 1099-R</p> <p>Internet:</p> <p>L&LT Adjustments to Income, IRA Contributions</p> <p>FAQs: Individual Retirement Accounts (IRAs)</p> <p>Tax Map: Roth IRA Contributions</p> <p>TaxWise Demo:</p> <p>Link to IRA Deduction worksheet from Form 1040, line 32</p>
Student Loan Interest	<p>Review L&LT topic Student Loan Interest.</p> <p>Direct students to Pub 4012 (Tab E):</p> <ul style="list-style-type: none"> • Student Loan Interest Deduction at a Glance • The Effect of MAGI on Student Loan Interest Deduction Chart <p>Refer students to Form 1098-E.</p> <p>Refer students to the Student Loan Deduction Worksheet from Form 1040 instructions.</p>	<p>Visuals:</p> <p>Form 13614-C, Section A, Part V, question 8</p> <p>Pub 4012 (Tab E) Student Loan Interest Deduction at a Glance</p> <p>Pub 4012 (Tab E) Effect of MAGI on Student Loan Interest Deduction tables</p> <p>Pub 4012 (Tab 3) Form 1040, Adjustments to Income</p> <p>Form 1040, line 33</p> <p>Form 1098-E</p>

	<p>Demonstrate how to enter student loan interest using the Student Loan, Education Worksheet in TaxWise.</p>	<p>Form 1040 Instructions, Student Loan Interest Deduction Worksheet</p> <p>Pub 970</p> <p>Internet:</p> <p>L&LT Adjustments to Income, IRA Contributions</p> <p>Tax Trails: Deduction for Higher Education Expense</p> <p>Tax Trails: Student Loan Interest</p> <p>FAQs: Education & Work-Related Expenses</p> <p>TaxWise Demo:</p> <p>Link from Form 1040, line 33</p> <p>Link to Student Loan Education Worksheet</p>
Tuition and Fees	<p>Review L&LT topic Tuition and Fees.</p> <p>Direct students to Pub 4012 (Tab E) Tuition and Fees Deduction at a Glance.</p> <p>Direct students to Pub 4012 (Tab 13), Highlights of Education Tax Benefits</p> <p>Remind that if taxpayers claim the tuition and fees deduction, they cannot claim the education tax credit for the same expenses.</p> <p>Review the tax forms associated with this topic.</p> <p>Demonstrate how to enter tuition and fees using the Tuition and Fees Worksheet in TaxWise.</p> <p>Point out that taxpayers should use the tax benefit that is most advantageous; tuition and fees or the education credit. (Education credits will be covered in a later lesson.)</p>	<p>Visuals:</p> <p>Pub 4012 (Tab E) Tuition and Fees Deduction at a Glance</p> <p>Pub 4012 (Tab 13) Highlights of Education Tax Benefits</p> <p>Form 1040, line 34</p> <p>Form 1098-T</p> <p>Form 8917</p> <p>Internet:</p> <p>L&LT Adjustments to Income, Tuition and Fees</p> <p>Tax Topic: Tuition And Fees Deduction</p> <p>TaxWise Demo:</p> <p>Link from Form 1040, line 34</p> <p>Link to Tuition and Fees Worksheet</p>

Summary	Review the lesson summary with the class.	Visuals: L&LT Adjustments to Income, Summary L< Adjustments to Income: Click Assessments icon to review Summary and Exercises
Vanessa Scenario	Direct students to Appendix A, Vanessa practice for Adjustments to Income. After they complete the exercise, ask students if they have any questions.	Visuals: Appendix A Practice for Adjustments to Income
Practice	Select the practice exercise on the AGI section of Form 1040. Ask students to select the problem based on their certification course of study. Verify they have correctly entered the adjustments to income	Visuals: Publication 4491-W Basic Comprehensive Problem and Practice Exercises Publication 4491-W Intermediate Comprehensive Problem and Practice Exercises Publication 4491-W Advanced Comprehensive Problem and Practice Exercises Publication 4491-W Military and International Comprehensive Problem and Practice Exercises

References

L<	Adjustments to Income
Form 13614-C	Form 13614-C , Intake/Interview & Quality Review Sheet, Section A, Part IV
Form 1040	Form 1040 , AGI Section
Pub 4012	Pub 4012, Volunteer Resource Guide, Tab E, and Tabs 2, 3, and 13 Tab 2, Interest Statement for Schedule B, Line 1b Interest Received Tab 3, Adjustments to Income Tab E, Alimony Requirements Tab E, Effect of Modified AGI on Traditional IRA Deduction tables Tab E, Student Loan Interest Deduction at a Glance

	Tab E, Effect of MAGI on Student Loan Interest Deduction tables Tab 13, Highlights of Education Tax Benefits
Appendix A	Vanessa Scenario Appendix A
Pub 4491-W	Pub 4491-W – Basic through International comprehensive problem, practice exercise(s) or supplements for AGI section of Form 1040
Form 1040 Instructions	Form 1040 Instructions
Schedule SE (Form 1040)	Schedule SE (Form 1040) , Self-Employment Tax
Form 1098-E	Form 1098-E , Student Loan Interest Statement
Form 1098-T	Form 1098-T , Tuition Statement
Form 1099-INT	Form 1099-INT , Interest Income
Form 1099-OID	Form 1099-OID , Original Issue Discount
Form 8917	Form 8917 , Tuition and Fees Deduction
Pub 17	Pub 17 , Part Four, Adjustments to Income
IRA Deduction Worksheet	Form 1040 Instructions , IRA Deduction Worksheet
Student Loan Deduction Worksheet	Form 1040 Instructions Student Loan Deduction Worksheet
Optional	
Pub 504	Publication 504 , Divorced or Separated Individuals, Alimony chapter
Pub 590	Publication 590 , Individual Retirement Arrangements
Publication 970	Publication 970 , Tax Benefits for Education

Recommended Classroom Activities



Tax Facts



Assessments



Media: Videos
& Audio



TaxWise
Tutorial



Job Aids



Practice
Lab



Tax Facts: Link & Learn Taxes Adjustments to Income

Click Tax Facts for a new way to access Link & Learn Taxes Adjustments to Income.



Assessments – Summary Exercise

Click Assessments for a new way to access the Summary and Exercises in Link & Learn Taxes Adjustments to Income.



Media: Video & Audio for Lesson

There is no media associated with this lesson.



TaxWise Tips and Resources for Lesson

TaxWise screens	Form 1040, Adjustments to income
	Alimony Paid Worksheet from Form 1040, line 31a
	IRS Deduction worksheet from Form 1040, line 32
	Student Loan Education Worksheet
	Tuition and Fees Worksheet
Practice Lab Tutorial	From the Practice Lab, select:
	1. 2011 TaxWise IRS training
	2. TaxWise Desktop Preparer with VITA/TCE Training menu or the TaxWise Online Preparer with VITA/TCE Training menu
	3. Click the Adjustments to Income button
TaxWise TV	http://www.taxwisetv.com/presentation.asp



Job Aids ITA and FAQs for Lesson

FAQs	Can I deduct separate maintenance paid to my spouse or alimony paid to my former spouse?
	http://www.irs.gov/Help-&-Resources/Tools-&-FAQs/FAQs-for-Individuals/Frequently-Asked-Tax-Questions-&-Answers/Itemized-Deductions,-Standard-Deductions/Interest,-Investment,-Money-Transactions/Interest,-Investment,-Money-Transactions-(Alimony,-Bad-Debts,-Applicable-Federal-Interest-Rate,-Gambling,-Legal-Fees,-Loans,-etc.)-1
	Alimony and Child Support
	http://www.irs.gov/Help-&-Resources/Tools-&-FAQs/FAQs-for-Individuals/Frequently-Asked-Tax-Questions-&-Answers/Interest,-Dividends,-Other-Types-of-Income/Alimony,-Child-Support,-Court-Awards,-Damages

Education & Work-Related Expenses

<http://www.irs.gov/Help-&-Resources/Tools-&-FAQs/FAQs-for-Individuals/Frequently-Asked-Tax-Questions-&-Answers/Itemized-Deductions,-Standard-Deductions/Education-&-Work-Related-Expenses>

FAQ: Individual Retirement Accounts (IRAs)

[http://www.irs.gov/Help-&-Resources/Tools-&-FAQs/FAQs-for-Individuals/Frequently-Asked-Tax-Questions-&-Answers/Individual-Retirement-Arrangements-\(IRAs\)](http://www.irs.gov/Help-&-Resources/Tools-&-FAQs/FAQs-for-Individuals/Frequently-Asked-Tax-Questions-&-Answers/Individual-Retirement-Arrangements-(IRAs))

Tax Trails

Tax Topic: Educator Expense Deduction

<http://www.irs.gov/taxtopics/tc458.html>

Deduction for Higher Education Expense

<http://www.irs.gov/Individuals/Tax-Trails---Deduction-for-Higher-Education-Expense>

Student Loan Interest

<http://www.irs.gov/Individuals/Tax-Trails-Student-Loan-Interest-10>

Tax Topic: Tuition And Fees Deduction

<http://www.irs.gov/taxtopics/tc457.html>

Self-Employment Tax

[http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Self-Employment-Tax-\(Social-Security-and-Medicare-Taxes\)](http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Self-Employment-Tax-(Social-Security-and-Medicare-Taxes))

Tax Map

Alimony Paid

<http://taxmap.ntis.gov/taxmap/pub17/p17-094.htm#TXMP0a559f41>

FAQs: Roth IRA Contributions

http://taxmap.ntis.gov/taxmap/faqs/faq_17-003.htm#TXMP65bc3a7f

References

References for L< Adjustments to Income

<http://apps.irs.gov/app/vita/content/17/references.jsp>



Practice Lab

Practice Lab

<http://www.voltaxprep.com/>
